

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
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R 301438Z AUG 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 1542
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 6429

USEEC AND EMBASSY

USOECD AND EMBASSY

E.O. 11652: GDS
TAGS: PINT, ECON, EFIN, SP
SUBJECT: THE SPANISH ECONOMIC PROGRAM

REF: MADRID 6289 AND 6310

1. SUMMARY. SECRETARY OF STATE FOR ECONOMY, WHO IS
LEADING GOS DISCUSSIONS WITH LABOR AND MANAGEMENT TO
GARNER SUPPORT FOR ECONOMIC MEASURES, IS CONCERNED
OVER LACK OF COOPERATION FORTHCOMING THUS FAR.
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TO GAIN AGREEMENT TO NECESSARY RESTRAINT ON WAGE
INCREASES, HE BELIEVES THAT PRIME MINISTER SUAREZ WILL
AT SOME POINT HAVE TO INTERVENE PERSONALLY WITH LEADER-
SHIP OF BOTH GROUPS. HE IS LESS CONCERNED WITH IMMEDIATE
BALANCE OF PAYMENTS SITUATION SINCE JULY DEVALUATION AND
BELIEVES GOS WILL BE UNDER NO PRESSURE TO DRAW
FURTHER ON IMF OR SEEK ANOTHER LARGE PRIVATE BANK LOAN

THIS YEAR. UNDERSECRETARY FOR BUDGET AND PUBLIC EXPENDITURES ESTIMATES THAT BUDGET DEFICIT FOR OVERALL PUBLIC SECTOR WILL BE 140 TO 150,000 MILLION PESETAS THIS YEAR. IN SPITE OF DIFFICULTIES, HE IS DETERMINED TO HAVE 1978 CONSOLIDATED PUBLIC SECTOR BUDGET READY FOR PARLIAMENTARY CONSIDERATION BY MID-OCTOBER. CONSOLIDATION OF BUDGET SHOULD PROVIDE GREATER CONTROL AND DIRECTION OF GOVERNMENT FISCAL ACTIVITIES. END SUMMARY.

2. DCM AND EMBOFF MET AUGUST 26 SEPARATELY WITH ECONOMIC MINISTRY SECRETARY OF STATE, JOSE RAMON ALVAREZ RENDUELES, AND FINANCE MINISTRY UNDERSECRETARY FOR BUDGET AND PUBLIC EXPENDITURE, JOSE BAREA, TO DISCUSS PROGRESS AND PROBLEMS IN IMPLEMENTATION OF NEW SPANISH ECONOMIC PROGRAM.

3. RENDUELES, WHO IS VICE PRESIDENT FOR ECONOMIC AFFAIRS FUENTES QUINTANA'S PRINCIPAL DEPUTY AND HAS BEEN IN CHARGE OF GOVERNMENT'S MEETINGS WITH EMPLOYER ORGANIZATIONS AND UNION REPRESENTATIVES (MADRID 6289), WAS VISIBLY DISTRESSED WITH LACK OF SUCCESS THUS FAR IN ELICITING AGREEMENT OF OPPOSITION PARTIES (PARTICULARLY PSOE) AND LABOR UNIONS TO MODERATION TO WAGE INCREASES. THE PSOE AND UNIONS, HE SAID, HAVE EXCELLENT ECONOMIC ADVISORS WHO UNDERSTAND NECESSITY OF RESTRAINING MONETARY EXPANSION AND WAGE INCREASES TO COMBAT INFLATION, BUT FOR POLITICAL AND TACTICAL REASONS ARE UNWILLING TO AGREE TO ANYTHING WHICH SMACKS OF A
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SOCIAL PACT. RENDUELES HAS THE IMPRESSION LABOR LEADERS HAVE A RATHER SHAKY CONTROL OVER THEIR RANK AND FILE AND ARE PRIMARILY CONCERNED WITH GAINING WORKER SUPPORT IN PLANT ELECTIONS THIS FALL. HE BELIEVES THAT AT SOME POINT PRIME MINISTER SUAREZ WILL HAVE TO NEGOTIATE WITH LABOR LEADERS ABOUT ISSUES WHICH ARE AS MUCH POLITICAL AS ECONOMIC, SUCH AS RULES FOR COLLECTIVE BARGAINING AND UNION ELECTIONS, RIGHT TO STRIKE, AND COMPENSATION FOR LABOR UNION ASSETS CONFISCATED FOLLOWING THE CIVIL WAR. RENDUELES SOMEWHAT MORE SANGUINE OF SUPPORT FROM CONFEDERATION OF BUSINESSMEN'S ORGANIZATIONS (CEOE) WHICH, HE SAID, REPRESENTS, LARGE NUMBER OF SMALL AND MEDIUM FIRMS BUT NONE OF THE MOST IMPORTANT FINANCIAL AND INDUSTRIAL POWERS. RENDUELES ALSO PROFESSED CONFIDENCE THAT GOVERNMENT WOULD BE ABLE TO OVERCOME OPPOSITION TO ITS ECONOMIC MEASURES ON THE PART OF IMPORTANT BANKING INTERESTS BECAUSE "THERE ARE REALLY NO ALTERNATIVES." HE SAID THERE HAD BEEN A MEETING, OR MEETINGS, WITH SOME OF THE PRINCIPAL BANKERS AND ALSO SOME OF THE BIG BUSINESSMEN IN WHICH THEY HAD EXPRESSED UNDERSTANDING. (THERE HAVE BEEN OTHER REPORTS THAT SOME PRINCIPAL BANKERS

ARE MUCH OPPOSED TO PARTS OF THE ECONOMIC PROGRAM.)
HE EMPHASIZED THAT PLANNED MONETARY AND FISCAL RE-
TRACTION IS INTENTIONALLY MODERATE AND GRADUAL BE-
CUASE OF GOVERNMENT'S ASSESSMENT THAT SPANISH SOCILA-
POLITICAL SITUATION WILL NOT TOLERATE GREATER
AUSTERITY.

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C O N F I D E N T I A L SECTION 2 OF 2 MADRID 6429

USEEC AND EMBASSY

USOECN AND EMBASSY

4. RENDUELES WAS MUCH LESS CONCERNED OVER IMMEDIATE
BALANCE OF PAYMENTS SITUATION. HE BELIEVES THAT IN
THE LIGHT OF CAPITAL REFLOWS AFTER THE DEVALUATION,
SMALL-SCALE BOND FLOTATIONS PLANNED IN THE JAPANESE,
EURODOLLAR AND U.S. MONEY MARKETS, AND CREDITS TO
SEMI-AUTONOMOUS GOVERNMENT AGENCIES AND PRIVATE
BORROWERS OBTAINED FROM A VARIETY OF SOURCES THUS
FAR, OR ANTICIPATED DURING THE REAMINDER OF 1977,
SPAIN WILL HAVE NO PROBLEM IN FINANCING THIS YEAR'S

CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT. AS A
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RESULT, HE SAID, SPAIN DOES NOT INTEND AT THIS POINT
EITHER TO DRAW ON IMF TRANCHES BEYOND THE GOLD TRANCHE
WHICH IS ALREADY DRAWN OR TO SEEK ANOTHER LARGE PRIVATE
BANK CONSORTIUM LOAN ALTHOUGH HE SAID HE DID NOT THINK
SPAIN HAD REACHED ITS LIMITS WITH PRIVATE BANKS. THE
GOS WOULD PREFER NOT TO GO TO THE IMF FORMALLY AT
THIS TIME BECAUSE OF POLITICAL CRITICISM IT MIGHT RE-
CEIVE FOR BOWING TO IMF DICTATES. (PRESUMABLY THE GOS
IS IN THIS REGARD THINKING OF THE IMPORTANT MUNICIPAL
ELECTIONS THAT PROBABLY WILL TAKE PLACE LATE THIS
YEAR OR EARLY NEXT YEAR.) HOWEVER, THE GOS WOULD LIKE
TO HAVE SOME INFORMAL INDICATION OF IMF ENDORSEMENT
OF ITS ECONOMIC PROGRAM AS A BOON TO FOREIGN BANKING
AND BUSINESS CONFIDENCE.

5. THE GOS IS CONCERNED ABOUT BUSINESS AND BANKING
CONFIDENCE. RENDUELES FEELS THE NEED OF SOME KIND OF
A PUBLIC RELATIONS CAMPAIGN, BUT HE HINTED THAT THE
ECONOMIC TEAM HAD NOT BEEN PERMITTED TO BE AS ACTIVE
IN THIS REGARD AS IT WOULD LIKE.

6. CONVERSATION WITH UNDERSECRETARY FOR BUDGET AND
PUBLIC EXPENDITURES BAREA CENTERED ON GOVERNMENT'S
INTENTIONS IN THE FISCAL FIELD, ANTICIPATED DEFICIT
FOR THIS YEAR, AND BUDGET PLANS FOR 1978. UNDER-
SECRETARY BAREA SAID THAT THE MAIN THRUST OF FISCAL
REFORM WAS TO EXPAND THE REVENUE BASE BY IMPROVING
TAX COLLECTION AND BY MAKING THE SYSTEM MORE PRO-
GRESSIVE AND TO COMBINE ALL PUBLIC SECTOR FISCAL
ACTIVITY OF THE CENTRAL GOVERNMENT WITHIN ONE CON-
SOLIDATED BUDGET. AT PRESENT, GOVERNMENT FISCAL
ACTIVITY IS FRAGMENTED, MAKING CONTROL DIFFICULT
IF NOT IMPOSSIBLE. BAREA CONFIRMED THAT FOR THIS
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YEAR THE CENTRAL GOVERNMENT BUDGET DEFICIT WOULD BE
BETWEEN 60 AND 70,000 MILLION PESETAS (MADRID6310),
AND HE ESTIMATES THAT THERE WILL BE AN ADDITIONAL
DEFICITS OF 60,000 MILLION PESETAS FOR AUTONOMOUS
BODIES (SUCH AS INI AND THE AGRICULTURAL PROGRAM
FORPA) AND 20,000 MILLION FOR LOCAL GOVERNMENTS. THE
SOCIAL SECURITY PROGRAM, HE SAID, IS HIGHLY DIS-
ORGANIZED, BUT HE HAS BEEN TOLD ITS BUDGET IS ROUGHLY

IN BALANCE. HE EXPECTS, THEREFORE, THAT THE OVERALL PUBLIC SECTOR DEFICIT FOR 1977 WILL BE BETWEEN 140,000 AND 150,000 MILLION PESETAS, OR ROUGHLY 12 PERCENT OF GNP. ALTHOUGH IT WILL BE A MONUMENTAL TASK TO PUT TOGETHER A CONSOLIDATED PUBLIC SECTOR BUDGET FOR NEXT YEAR, BAREA IS DETERMINED TO DO SO AND TO HAVE IT BEFORE THE CORTES BY OCTOBER 15 OF THIS YEAR. AS TO FISCAL REFORM, THE GOVERNMENT IS COMMITTED TO HAVING ITS MAJOR PROPOSALS BEFORE PARLIAMENT IN TWO PACKAGES BY SEPTEMBER 30 AND NOVEMBER 30. IN THE MEANTIME, HE BELIEVES THE GOVERNMENT WILL SEEK FULL CORTES APPROVAL OF ITS PROPOSED LAW ON URGENT FISCAL MEASURES WHICH IS NOW BEFORE THE COMMITTEE ON ECONOMICS AND FINANCE (MADRID 5929 AND 6029).

7. COMMENT: LIKE OTHER MEMBERS OF THE GOVERNMENT'S NEW ECONOMIC TEAM, ALVAREZ RENDUELES AND BAREA ARE HIGHLY COMPETENT PROFESSIONALS DETERMINED TO INSTITUTE MEASURES TO STABILIZE THE SPANISH ECONOMIC SITUATION WHILE BEGINNING MORE STRUCTURED REFORMS. WE HAVE THE IMPRESSION THUS FAR THAT THE ECONOMIC TEAM IS WORKING TOGETHER IN HARMONY AND WITH BASIC AGREEMENT ON ALL MEASURES. STABLER

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Message Attributes

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